Lender Letter LL-2017-02

June 13, 2017

To: All Fannie Mae Single-Family Sellers and Servicers

Changes to the Reporting of Civil Judgments and Tax Liens on Credit Reports

Background

The three nationwide consumer credit reporting agencies (CRAs) − Equifax, Experian, and TransUnion − have announced plans to implement a public record data standard effective in July 2017 that is designed to improve the accuracy of credit reports. The changes are expected to impact the types of delinquent credit identified on credit reports.

With implementation of the CRAs' National Consumer Assistance Plan (NCAP), most civil judgments and tax liens will no longer be included in credit reports. The CRAs have stated that any impact to credit scores will be minimal, and that there will be no impact to foreclosure and bankruptcy data on credit reports.

This Lender Letter provides clarifications in response to questions we have received from lenders about how the credit report changes will impact the Desktop Underwriter® (DU®) risk assessment, our requirements, and lenders' responsibilities.

Reliability of DU's Risk Assessment

Lenders can continue to rely on the DU risk assessment and recommendation. DU uses judgment and lien information from credit reports as part of the comprehensive risk assessment. If the information is available on the credit report, DU will continue to use the information as part of the risk assessment. As a reminder, credit scores are not considered in DU's comprehensive risk assessment (see *Selling Guide* B3-5.3-09, DU Credit Report Analysis).

To assess the impact to DU of the credit reporting changes, we simulated the expected results of the changes to the reporting of judgments and tax liens on the credit report (including the absence of this information). Our analysis indicates that, even when these items are not visible to DU and therefore not considered as part of the risk assessment, the overall impact to the DU recommendation will be small and lenders can continue to have full confidence in DU's risk assessment and Approve/Eligible recommendations.

Loan Quality Center Post Acquisition Review Process

We are updating our Loan Quality Center's (LQC) post acquisition file review process appropriately to take into consideration the changes made by the credit bureaus. If during our review, we find a loan that has a lien or judgment that was not observable from the lender's origination file, we will cite a finding only. When our LQC cites a finding – and not a significant defect – it is to make the lender aware of this information. Noting a finding is consistent with one of our primary file review objectives of providing feedback to lenders to continuously improve the loan manufacturing process. The finding will also allow us to track the effects of the credit report changes and inform us of the potential need for any possible adjustments to this policy in the future.

As is the case today, we will rely on life of loan representations and warranties as the resolution if there is a clear title and first-lien enforceability issue identified subsequent to the post acquisitions review process even if a finding was initially cited. See *Selling Guide* A2-2.1-07, Life-of-Loan Representations and Warranties for additional information.

Existing Policies Continue to Apply

We are not changing existing policy that requires delinquent credit, including judgments and liens, to be paid off at or prior to closing. The *Selling Guide* defines our requirements and lender responsibilities for underwriting borrowers with certain types of outstanding debts (e.g., judgments and tax liens). Documentation of the satisfaction of open judgments and all outstanding liens, along with verification of funds sufficient to satisfy them, must be maintained in the permanent loan file. We are also not changing our undisclosed liabilities policy for which the lender is responsible for up to and concurrent with closing. See B3-6-07, Debts Paid Off At or Prior to Closing, and B3-6-01, General Information on Liabilities, for additional information. Lastly, our credit report requirements are still applicable, although we plan to add a clarifying reference to NCAP in B3-5.2-01, Requirements for Credit Reports, in a future Guide update.

Lenders are not required to use sources to identify potential civil judgments and tax liens other than the loan application, credit report, and preliminary title report. We will, however, continue to require lenders to assess information if the lender is otherwise made aware of outstanding judgments and liens prior to closing.

Fannie Mae and Next Steps

As mentioned above, we will monitor this situation in order to understand how the credit report changes impact lenders throughout the loan origination process. We ask that lenders share their experiences related to this topic with their Fannie Mae customer delivery team.

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Lenders who have questions about this Lender Letter should contact their Fannie Mae customer delivery team.

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